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SCHOOLS AND LIBRARIES CORPORATION
1023 15th STREET, N.W.
WASHINGTON, D.C. 20005

Ira Fishman
Chief Executive Officer

DOCKET FILE COPY ORIGINAL

May 1, 1998

Honorable Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, NW
Washington, DC 20054

RE: Schools and Libraries Corporation
Fund Size Requirements for Third Quarter 1998
CC Docket Nos. 96-45, 97-21

Dear Secretary Salas:

In accordance with 47 C.F.R. § 54.709(a)(3), enclosed are the original and four (4) copies of the Third Quarter 1998 Fund Size Requirements for the Schools and Libraries Universal Service Program.

Acknowledgment and date of receipt of this letter is requested. A duplicate copy has been provided for that purpose.

Respectfully submitted,

Ira Fishman
Chief Executive Officer

Enclosure

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Superintendent Educational
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**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

**Schools and Libraries Fund
Fund Size Requirements for Third Quarter 1998
CC Docket Nos. 96-45, 97-21**

I. Introduction

The Schools and Libraries Corporation (SLC or Corporation) hereby submits this filing in accordance with section 54.709(a)(3) of the Federal Communications Commission's (FCC or Commission) rules.¹ This filing details fund size requirements for Third Quarter 1998 for the Schools and Libraries Fund.

II. Schools and Libraries Fund

The Commission's May 7, 1997, Universal Service Order² outlined a plan to ensure that all eligible schools, libraries³ and rural health care providers have affordable connections to the global telecommunications network. The plan created a fund to provide telecommunications services and to wire schools and libraries for access to the Internet. Pursuant to the Commission's rules,⁴ this fund is capped at \$2.25 billion per

¹47 C.F.R. § 54.709 (a)(3).

² Federal-State Joint Board on Universal Service, CC Docket No. 96-45, *Report and Order*, 12 FCC Rcd 8776 (1997) (Universal Service Order).

³ The term "school" includes individual schools, school districts, and consortia of schools and/or school districts. The term "library" includes individual library branches, library facilities, library systems, and library consortia.

⁴See 47 C.F.R. § 54.507(a).

funding year. The Commission appointed the National Exchange Carrier Association (NECA) to temporarily administer, through an independent, non-profit subsidiary, billing and collection for support mechanisms which will fund the universal service programs. The Commission ordered NECA to incorporate an independent, non-profit subsidiary to perform these duties, Universal Service Administrative Company (USAC), and two, non-profit, unaffiliated corporations, the Schools and Libraries Corporation and the Rural Health Care Corporation (RHCC).

USAC will administer, temporarily, the universal service support mechanisms for high cost areas and low-income consumers, as well as billing, collection and disbursement functions for schools, libraries and rural health care providers. The SLC will provide all other functions for the schools and libraries program, such as administering the application process, creating and maintaining a Web Site to post services requested applications, and performing outreach and public education.

III. Projected Demand

The SLC has undertaken a statistically valid sampling of applications filed for the 1998 Funding Year in order to project the total amount of discounts requested in those applications. There is a 95 percent confidence level that the projection of total requests is within 5 percent of the actual total requests in the more than 30,000 applications that have been received. Based upon the analysis of this sample, we project that \$2.02 billion in discounts have been requested by applicants who have filed through April 28th.

IV. Estimates of SLC Expenses

A. Third Quarter 1998

In the Third Quarter of 1998, the SLC will begin processing the second round of applications -- for Funding Year 1999. Expenses for the SLC staff itself will be lower than the Second Quarter estimate because staffing remains below earlier budget projections. Start-up costs also will be lower as the largest initial phase of Web Site development and formulation of operating procedures will be completed in the Second Quarter. On the other hand, other contractor costs will be higher than the January Second Quarter estimate because the SLC will be processing both 1998 vendor invoices and 1999 funding applications.

There are some significant assumptions underlying our expense estimates.

They include the following:

- a total of about 50,000 FCC Forms 470 for 1999 funding filed in the Third Quarter, with 10 percent filed on paper,
- no significant volume of FCC Forms 471 processed in the Third Quarter,
- about 75,000 FCC Forms 486 and 500,000 invoices filed for Funding Year 1998, and
- the volume of calls to the Client Service Bureau is down from the Second Quarter due to a better informed client base and the availability of more detailed filing guidance.

With these assumptions, expenses and interest income for the Third Quarter 1998 are estimated as follows (amounts in millions):

3Q 1998 Expenses	\$4.2
Expenses from USAC	.2
Interest Income	<u>- 0⁵</u>
Total	<u>\$4.4</u>

⁵ Interest earned in the Third Quarter will depend on the size of collections and on the amount and rate of disbursements in July. Therefore, this represents a very conservative assumption.

As noted above, the SLC will be supporting two complete application cycles in 1998 – for Funding Years 1998 and 1999. The Web Site opened for applications for 1998 funding on January 30, 1998, and the 75-day window closed on April 15.

Applications can continue to be filed after the close of the window, but we are seeing a significant decline in the volume of applications for 1998 funding since the close of the window. On July 1, 1998, we will begin receiving applications for funding for 1999. We expect to have funding commitments made before December 31, 1998 for 1999 funding requests for those who file within the first three to four months after July 1. Therefore, our Client Service Bureau will handle a new round of questions for 1999 later this year, as well as data entry for 1999 applications. Our Program Integrity Assurance unit is beginning pre-commitment review now of applications for 1998 funding and will begin review of applications for 1999 funding in the fall of 1998.

We have analyzed how our estimated Third Quarter expenses split out between support for the 1998 Funding Year and the 1999 Funding Year. We estimate that 35 percent of the \$4.2 million we project to need for expenses in the Third Quarter will be for 1998 Funding Year-related activities and 65 percent for 1999 Funding Year. That proportion will be even more heavily weighted to Funding Year 1999 in the Fourth Quarter, and, of course, there will be additional costs for funding 1999 next year.

Exhibit 1 shows more detail behind the Third Quarter estimate.

B. Prior Period Adjustment

In the First Quarter 1998 filing that NECA did on SLC's behalf, there was an estimate of \$564,000 for start-up expenses for 1997 to be paid to NECA in that quarter. The actual payment was \$1.86 million. That filing also estimated SLC's First Quarter

1998 expenses at \$1.942 million. As we explained in our Second Quarter filing, NECA produced the First Quarter estimate (and the 1997 expenses as well) without a good sense of the likely demand for the program and without a detailed plan for program implementation. We are reviewing invoices submitted to the SLC by NECA and will provide final First Quarter expenses in a supplementary filing.

V. Next Filing

Pursuant to the Commission's rules,⁶ the next filing will be on or before August 1, 1998.

Respectfully submitted,



Ira Fishman
Chief Executive Officer
Schools and Libraries Corporation
1023 15th Street, N.W., Suite 200
Washington, DC 20005

May 1, 1998

⁶See 47 C.F.R. § 69.620(b).

Exhibit 1

**Schools & Libraries Corporation
Third Quarter 1998 Budget Estimate
(Amounts in thousands)**

SLC Operating	
Labor Costs	\$450
Travel, Supplies, Other	100
Contingency	<u>50</u>
Total	\$600

Non-Recurring Start-Up	\$600
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NECA Operating	<u>\$3,000</u>
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Total	<u><u>\$4,200</u></u>
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Expenses SLC	\$4,200
Expenses from USAC	200
Interest Income SLC	<u>(0)⁷</u>

Total	<u><u>\$4,400</u></u>
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⁷ Interest earned in the Third Quarter will depend on the size of collections and on the amount and rate of disbursements in July. Therefore, this represents a very conservative assumption.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing filing was served this 1st day of May 1998, by mailing copies thereof by United States Mail, first class postage paid or by hand delivery, to the persons listed below.

By: 

Matthew Harcourt
SLC

The following parties were served:

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